

Message Text

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ACTION ARA-10

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C O N F I D E N T I A L SANTIAGO 1455

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, EAID, CI

SUBJECT: US AID TO CHILE

1. SUMMARY: I RECOMMEND THAT FULL-SCALE USG REVIEW BE MADE AT EARLY DATE SO THAT PROMPT RESPONSE CAN BE GIVEN TO VARIOUS PENDING GOC AID REQUESTS. WHILE US ASSISTANCE IN DEBT RENEGOTIATION AND FOOD SUPPLIES SINCE SEPTEMBER 11 COUP IS APPRECIATED BY CHILEAN LEADERSHIP, THEY CLEARLY EXPECT SUBSTANTIAL ADDITIONAL US ASSISTANCE IN CY 1974. THEIR CONCERN WITH THE DIFFICULTIES THEY FACE IN ATTEMPTING TO COVER THEIR 1974 FOREIGN EXCHANGE GAP WILL PROBABLY BE MADE MANIFEST IN APPROACHES TO SECRETARY SHULTZ AND SECRETARY KISSINGER AT UPCOMING HIGH-LEVEL MEETINGS. END SUMMARY.

2. AS FY 1974 APPROACHES ITS CLOSE AND CHILEANS TIGHTEN BELTS TO FACE UP TO WINTER OF AUSTERITY, I WISH TO EMPHASIZE IMPORTANCE OF EARLY USG DECISIONS IN RESPONSE TO OUTSTANDING CHILEAN ECONOMIC AID REQUESTS. IF US INTENDS TO SUPPPORT GOC, AS I BELIEVE IT SHOULD, PROMPT ASSISTANCE WILL BE NEEDED. SUCH ASSISTANCE WILL HAVE MAJOR POLITICAL AND PSYCHOLOGICAL IMPACT ON JUNTA. IT WILL HELP NOT ONLY TO PREVENT DETERIORATION IN
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OUR CURRENTLY SATISFACTORY RELATIONS, BUT ALSO TO PROVIDE

WHEREWITHAL AND SELF-CONFIDENCE THAT WILL ENHANCE PROSPECTS FOR MODERNATION IN CHILEAN INTERNAL PRACTICES WHICH MAKE OUR DECISION-MAKING DIFFICULT.

3. SINCE PRESENT GOC ASSUMED POWER SEPTEMBER 11, THE US HAS RENDERED IMPORTANT ECONOMIC ASSISTANCE TO CHILE IN TWO WAYS: THROUGH OUR INFLUENCE IN OBTAINING RESCHEDULING OF CHILE'S DEBT PAYMENTS VIA PARIS CLUB MECHANISM, AND BY EXTENDING TWO CCC CREDITS TOTALING \$52 MILLION. MANY HIGH CHILEAN OFFICIALS HAVE EXPRESSED THEIR APPRECIATION FOR THIS ASSISTANCE. THEY HAVE ALSO INDICATED THAT THEY HOPE FOR AND EXPECT ADDITIONAL US BALANCE OF PAYMENTS AID SHORTLY. THERE IS NO DOUBT THAT CHILE'S BALANCE OF PAYMENTS PROBLEMS WILL REQUIRE CONCESSIONAL LENDING FROM US AS WELL AS OTHER SOURCES FOR SUCCESSFUL MANAGEMENT OF ITS TRADE AND DEBT PROBLEM.

4. IN VARIOUS PROPOSALS INCLUDING THOSE CONTAINED IN FY 1975-76 CASP EMBASSY RECOMMENDED A USG ASSISTANCE PACKAGE TO CHILE OF APPROXIMATELY \$150 MILLION ANNUALLY, IN ADDITION TO PARIS CLUB DEBT RELIEF. EMBASSY HAS HAD IN MIND A SERIES OF STEPS TO BE TAKEN IN APPROXIMATELY THE FOLLOWING ORDER:

(A) EXIM BANK WOULD RESUME LENDING TO CHILE WITHIN NEXT MONTH OR SO AND EXTEND CREDITS OF APPROXIMATELY \$50 MILLION DURING THIS CALENDER YEAR.

(B) AID PIPELINE DISBURSEMENTS WOULD BE RESUMED IN APRIL.

(C) CONGRESSIONAL APPROVAL WOULD BE SOUGHT FOR A \$25 MILLION BALANCE OF PAYMENTS LOAN FROM FY 1974 AID FUNDS.

(D) SOME ATTEMPT WOULD BE MADE TO FIND PL-480 COMMODITIES FOR CHILE FROM FY 1974 RESOURCES. IN EARLY JULY, ADDITIONAL FOOD RESOURCES, PARTICULARLY WHEAT, WOULD DEFINITELY BE PROGRAMMED FOR CHILE OUT OF FY 1975 AVAILABILITIES.

(E) AS PART OF THE FY 1975 AID PRESENTATION TO CONGRESS, APPROXIMATELY \$30 MILLION WOULD BE EARMARKED FOR CHILE OUT OF WHICH APPROXIMATELY \$25 MILLION WOULD BE DESIGNATED FOR AN AGRICULTURAL DEVELOPMENT LOAN AND CONFIDENTIAL

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A NUTRITION LOAN.

5. I APPRECIATE THE POLITICAL AND BUDGETARY CONSTRAINTS ON MOVING AHEAD RAPIDLY WITH THIS KIND OF PACKAGE. NEVERTHELESS, I BELIEVE WE SHOULD DO SO. POLITICAL OPPOSITION IN US TO PRESENT CHILEAN GOVERNMENT IS NOT LIKELY TO DIMINISH SIGNIFICANTLY IN COMING MONTHS; IT IS AN OBSTACLE THAT MUST BE FACED AT SOME POINT. AND

GOC EXPECTATIONS WILL BE MORE FULLY SATISFIED BY USG ASSISTANCE (WHATEVER ITS ABSOLUTE LEVEL) WHICH COMES EARLY RATHER THAN LATE.

6. WE ANTICIPATE MOUNTING GOC PRESSURES ON USG FOR PROMPT AND FAVORABLE CONSIDERATION OF THEIR REQUESTS. SECRETARY SHULTZ WILL PROBABLY BE APPROACHED BY CHILEANS DURING IDB MEETING IN SANTIAGO APRIL 1-3, AND SECRETARY KISSINGER AND OTHERS MAY ALSO BE APPROACHED AT WASHINGTON MFM AND ATLANTA OAS CONFERENCE.

7. ACTION RECOMMENDED: I RECOMMEND THAT AN URGENT INTER-AGENCY REVIEW BE UNDERTAKEN TO DETERMINE TIMING, AMOUNTS, AND TYPES OF USG ASSISTANCE WHICH IS TO BE MADE AVAILABLE TO CHILE DURING CY 1974. TO EXTENT POSSIBLE, EMBASSY SANTIAGO WILL BE GLAD TO PROVIDE ANY INFORMATION NEEDED FOR THIS REVIEW. IN THIS CONNECTION, IT WOULD BE MOST USEFUL TO EMBASSY TO RECEIVE FROM DEPARTMENT RESUME OF WHERE EACH OF MATTERS LISTED PARA 4 ABOVE CURRENTLY STANDS, TOGETHER WITH WHAT DEPARTMENT CAN TELL US RE PROSPECTS FOR ACTION ON EACH.
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